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Opportunities and challenges for a sustainable energy policy in SE Europe: SE European Energy Community Treaty

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ABSTRACT

Energy demand continues to increase in turn raising concerns about energy supply. In this paper, the author has tried to systematize the role of the energy sector in South Eastern (SE) Europe in the context of the European energy policy process. This should make the energy sector in SE Europe more visible and open to substantial activities and appropriate funding. This is important to assure its full alignment with the European energy policy process, and in so doing, make it less fragile. According to the SE European Energy Community Treaty, parties to the Treaty are obliged to implement reforms in the energy and environmental sector in accordance with the European Union's respective policy.

This paper raises awareness of the environmental requirements that have been set, of renewable energy and its implementation, at the same time pointing out that the response in SE Europe has been at a low level. It is believed that this paper could draw attention to the existing problems and could contribute to the establishment of a common integrated energy market in SE Europe and the EU.

Contents

1. Introduction

The European energy sector currently faces numerous challenges such as ensuring the security of energy supply, stabilizing and reducing GHG emissions, and maintaining economic competitiveness by keeping energy prices at an affordable level.

The SE European Energy Community Treaty is providing both opportunities and challenges for a sustainable energy policy in SE Europe. It is important to note that SE Europe has an important transit role for Russian natural gas going to Western Europe.

2. Background on the regional Treaty

The Athens Agreement, signed on 8 December 2003 [1], shaped SE Europe's regional cooperation in the field of energy and lead to

Abbreviations: ECT, Energy Community Treaty; SE, South East; EU, European union; SEE, South Eastern Europe; EIA, environmental impact assessment; SAA, stabilization and association process; GHG, greenhouse gases.

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the establishment of the Energy Community of SE Europe on 25 October 2005 [2].

The Athens Process and the Energy Community Treaty (ECT) imply that signatory partners shall [2,3]:

- Implement plans for the reform of electricity and gas tariffs;
- Implement all relevant technical standards, such as transmission codes, invoicing systems and the exchange of information for transmission operations;
- Implement effective access to the infrastructure for third parties;
- Establish national regulatory authorities and operators for the transmission system;
- Develop local solutions for urgent problems of regulation in the areas of energy, poverty and social equity, and
- Implement the directives relevant to gas and electricity.

The signatories (Parties to the Treaty) are the European Union and nine SEE partners: Croatia, Bosnia and Herzegovina, Serbia, Montenegro, FYR of Macedonia, Albania, Romania, Bulgaria and the Interim UN Administration for Kosovo–UNMIK.

The aim of the ECT, which entered into force in July 2006, is to establish a stable regulatory and market framework capable of attracting investment in energy generation, transmission and networks. A single regulatory area in the region, aligned with EU legislation [4,5] has been structured to help overcome market fragmentation, ensure security of supply and contribute to improving the state of the environment.

The Treaty establishing the Energy Community consists of three operational parts, specifically:

- The treaty will extend to the countries of SE Europe the implementation of energy and environmental standards as parts of the EU *Acquis Communautaire* in the areas of renewable sources and competition,
- The treaty will establish regional mechanisms linked to the EU in order to enable a deep integration of the local energy markets. This would imply, for instance, an accelerated development of infrastructure, especially gas pipelines,
- Having in mind that the common energy market is key to the Energy Community, there is an agreement to work towards common foreign trade policies, assistance between members and the removal of internal barriers to energy markets.

The Treaty consists of regulations regarding electricity and natural gas. Although the ECT does not specifically refer to the coal industry, its implementation will have strong effects in this sector too. In addition, the ECT does not cover the oil sector, but this sector could also benefit significantly from regional linkages [6].

2.1. Regulatory environmental requirements

The ECT is an effective pre-accession instrument since its objective is to broaden the benefits of the internal EU energy market enjoyed by the countries of the region before they become members thereof. It also requires all partners to urgently undertake the obligation to act accordingly without delaying things for the future, and to systematize things as follows [7]:

2.1.1. The environmental impact assessment – EIA Directive

As of the date of entry into force of the ECT, each contracting party should implement Council Directive 85/337/EEC as amended by Council Directive 97/11/EC of 3 March 1997 and Directive 2003/35/EC of the European Parliament and of the Council of 26 May 2003. It states that the construction and operation of new generating plants (in the electricity and gas sectors) shall comply with *the acquis communautaire on the environment.*

2.1.2. Conservation of wild birds

As of the date of entry into force of the ECT each contracting party should implement Article 4(2) of Directive 79/409/EEC of the Council of 2 April 1979 on the conservation of wild birds.

2.1.3. Reduction in the sulphur content of certain liquid fuels

By 31 December 2011, each Contracting Party shall implement Council Directive 1999/32/EC of 26 April 1999 relating to a reduction in the sulphur content of certain liquid fuels and amending Directive 93/12/EEC.

2.1.4. The limitation of emissions of certain pollutants into the air from large combustion plants

By 31 December 2017 each Contracting Party shall implement Directive 2001/80/EC of the European Parliament and of the Council of 23 October 2001 on the limitation of emissions of certain pollutants into the air from large combustion plants.

2.1.5. Kyoto Protocol

The contracting Parties recognize the importance of the Kyoto Protocol and agree that they shall endeavor to accede to it.

2.1.6. Renewable energy

The Energy Community has long recognized the need to further *promote renewable energy* given that its exploitation contributes to climate change mitigation through the reduction of GHG emissions, sustainable development, security of supply and the development of a knowledge-based industry creating jobs, economic growth, competitiveness and regional and rural development.

3. Countries' response

Regional cooperation among participating countries is a key element of accession and of the Stabilization and Association Process (SAA) [3,5,6,7,8]. Constructive regional cooperation is valued as an indicator of the readiness of a country to integrate in the EU and is part of the political criteria of the SAA and accession.

A proper response and the implementation of the ECT at a national level represent the precondition to cooperation on a regional level. Approximation to the EU will proceed in line with the development of regional cooperation in the SEE following the model of integration and cooperation within the EU itself.

The progress reports submitted to the EU are used to indicate the ECT party response to the implementation of directives [9,10,11,12,13,14,15]. In this paper, the author has tried to systematize the role of the energy sector in Southeast (SE) Europe. This has been done by using the progress made in EU accession as the environmental analytical tool [16,17] in the context of the European energy policy process, in order to make it visible, and possibly speed up the process of integration**.**

As shown in Table 1, EIA has still not been fully implemented in the region of SE Europe, thereby limiting the implementation of the ECT. The implementation of requirements regarding the "birds directive" (Table 2), air pollution (Table 3), climate change (Table 4) and renewable energy (Table 5) is even more behind.

In some countries of SE Europe that are parties to the ECT, some progress has been made with regard to the internal energy market (Croatia, FYR of Macedonia, Albania, Serbia). In Croatia, there has been progress regarding gas markets and the implementation of adopted legislation related to liquefied petroleum gas (LPG).

Serbia has signed an energy related Memorandum of Understanding with Russia which was ratified by the Serbian parliament

Table 1
Implementation of EIA in SEE.

Croatia	Full transposition of the environmental impact assessment
The former Yugoslav Republic of Macedonia	The EIA requirements relating to informing and consulting the public have not yet been adequately applied.
Montenegro	Legislation on environmental impact assessment has been adopted.
Albania	The second part of the National Methodology for environmental impact assessment (EIA) has been approved. However, the implementation of EIA legislation needs to be improved.
Bosnia and Herzegovina	Special attention must be given to environmental impact assessment, especially in projects with possible trans-boundary effects.
Serbia	Enforcement of EIA has not been fully ensured and the level of non-compliance remains high. Inter-ministerial coordination on project assessments and the issuing of permits needs to be improved. Responsible institutions at the local level still lack the necessary capacities, sufficient awareness and specific knowledge.
Kosovo, under UN 1244	Some progress can be reported in the area of horizontal legislation. Following the adoption of provisions on environmental impact assessment (EIA) in the Law on Environmental Protection, the implementation of the law is at an initial stage. Some effort has been made to increase public awareness and civil society participation in environmental matters.

Table 2
The implementation of "Birds Directives" in SEE.

Croatia	Some progress can be reported in the field of nature protection.
The former Yugoslav Republic of Macedonia	Little progress can be reported in terms of the nature protection
Montenegro	Some progress can be reported in the field of nature protection.
Albania	More progress needs to be made in terms of acting in accordance with the wild birds and habitats directives. There has been some progress in the field of nature protection.
Bosnia and Herzegovina	Transposition of the Habitats and wild birds Directives, including aspects required under the Energy Community Treaty, is at an early stage. There has been limited progress in the field of nature protection.
Serbia	There has been no progress in the field of nature protection.
Kosovo, under UN 1244	No progress has been made in the field of nature protection. Transposition of the wild birds Directive and the habitats Directive is still pending.

Table 3
Progress made in terms of air pollution control in SEE.

Croatia	Good progress has been made in terms of air quality.
The former Yugoslav Republic of Macedonia	Some progress has been made in terms of air quality.
Montenegro	Limited progress has been made in the field of air quality.
Albania	Limited progress can be reported in terms of air quality improvement in urban areas.
Bosnia and Herzegovina	No development can be reported with regard to air quality.
Serbia	There has been no progress in the field of air quality.
Kosovo, under UN 1244	There is no development to report in terms of air quality improvement.

in September 2008. This is a framework document for signing several deals in the energy field. The agreement includes the privatization and modernization of the Serbian Oil Company (NIS – Naftna Industrija Srbije), the completion of the construction of an underground gas storage facility and the passing of the Northern branch of the South Stream pipeline through Serbia. In the implementation of the Memorandum of Understanding, Serbia needs to ensure that the obligations of the Energy Community Treaty are respected.

4. Possible effect of UN climate change negotiations

The European Commission expects all enlargement countries to support the EU's objective of reaching an ambitious and comprehensive agreement at the Copenhagen Conference on climate change [18]. In December 2009, representatives from 193 Parties to the United Nations Framework Convention on Climate Change will convene in Copenhagen, seeking to agree on a scientifically rigorous climate agreement for the post-2012 period. The ongoing discussion centers on four key issues – mitigation, adaptation, technology and financing.

There is no doubt that solutions to climate change also affect solutions to energy security. However, these future solutions will most likely:

Table 4
Progress made in terms of climate change.

Croatia	Some progress has been achieved in the area of climate change. An action plan for the implementation of the Kyoto Protocol has been adopted. The national inventory reports on greenhouse gas (GHG) emissions for 2007 and 2008 have been submitted to the Convention Secretariat. Further work is required in the areas of GHG emission allowance trading, the establishment of a national GHG registry and Croatia's participation in the EU Emissions Trading Scheme (EU ETS).
The former Yugoslav Republic of Macedonia	Currently projects aimed at the reduction of greenhouse gas emissions, in line with the clean development mechanism (CDM) under the Kyoto Protocol are being prepared.
Montenegro	A competent authority has been designated as the national authority for projects related to the Clean Development Mechanism (CDM) under the Kyoto Protocol.
Albania	With regard to climate change, some effort can be noted, in particular concerning the development of the clean development mechanism (CDM).
Bosnia and Herzegovina	Not mentioned in the progress report
Serbia	The administrative structures required to implement the Kyoto Protocol are not yet in place.
Kosovo, under UN 1244	Not mentioned in the progress report.

Table 5
Progress made in terms of using renewable energy sources (RES).

Croatia	Only limited progress can be reported. The administrative capacity needs significant strengthening.
The former Yugoslav Republic of Macedonia	Some progress has been made in the field of renewable energy. Relevant legislation has been adopted. The administrative capacity for developing renewable energy sources has been strengthened. In the area of renewable energy, the country is moderately advanced.
Montenegro	An action plan on renewable energy sources (RES) (prepared in response to Directive 2001/77/EC) and an action plan for the promotion of biofuels (prepared in response to Directive 2003/30/EC) were adopted under the auspices of the Energy Community in late July 2007. However, little has been done in terms of their implementation. An action plan for energy efficiency covering the period 2008–2012 has also been adopted. Detailed plans for its implementation and an action plan for energy efficiency in the public sector are under development.
Albania	There has been some progress in the hydroelectric sector, but the development and use of other renewable energy sources remains at an early stage.
Bosnia and Herzegovina	No progress has been made in terms of renewable energy.
Serbia	Little progress can be reported on renewable energy.
Kosovo, under UN 1244	Emphasis has been put on the promotion of renewable energy sources although government funding is limited. Overall, there has been some progress in the energy sector, particularly in building up the institutional capacity of the Ministry, Regulator and Transmission System Operator (KOSTT).

- Not change the Balkans countries' attitude to EU accession (and needs to fulfill their commitment to the Energy Community Treaty)
- Provide opportunities for financing (especially important for the energy and environmental infrastructure sectors that depend on government investment and financial flows).

5. Conclusion

According to the SE European Energy Community Treaty, Parties to the Treaty are obliged to implement reforms in the energy and environmental sector in accordance with the European Union's respective policy. This paper has reviewed the overall awareness and the level of implementation of environmental and renewable energy requirements, pointing out that the response in the region is at a low level.

Indices on national environmental and related performances suggest that no country in the area is performing adequately in terms of the set timeframe. Regional cooperation should lead to progress in the areas of energy and the environment, catalyzing the countries' appropriate response in order to speed up EU integration. This paper could be helpful in contributing to the establishment of a common integrated energy market in SE Europe and the EU.

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